Manitoba

TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT TO MEMBERS

1987

88-00905/

1987 REPORT TO MEMBERS

THE TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

James G. Oborne, Chairman — William E. Lavery, Vice Chairman

TEACHER MEMBERS	SCHOOL TRUSTEE MEMBERS
David Lerner	George Eakin
Murray Smith	Ray Whiteway
George Strang	

The Teachers' Pensions Act, and preceding Acts dating back to 1925, were enacted for the purpose of providing the framework under which Manitoba public school teachers might find financial security in retirement.

The Teachers' Retirement Allowances Fund Board is constituted under The Teachers' Pensions Act to administer that Act, which also provides for a specifically constituted Investment Committee with responsibility for investment of the Fund's assets.

STATEMENT OF MANAGEMENT OBJECTIVES

1. To invest the assets of the Fund in a manner that will ensure security of capital on a real value basis making every effort, within an appropriate asset-mix policy, to earn a favorable real rate of return.
2. To ensure that all benefits are determined in accordance with the Act and paid on a timely basis.
3. To provide plan members with accurate information about the pension plan necessary to enable them to make informed decisions with respect to retirement and to the form in which earned benefits will be paid.
4. To make safekeeping arrangements for the Fund's investments that ensure their safe custody.
5. To maintain the financial and historical records of the Fund and to keep them current at all times.
6. To administer the affairs of the Fund in an effective, economical and socially responsible manner.

You are welcome to direct your enquiries regarding your status as a member of this plan to the Board office. In order that we may more rapidly answer your enquiries, we suggest that, when doing so, you state the subject you wish to discuss so that we may refer you to the appropriate staff member. It would also expedite matters if you advise as to your social insurance number. Members of the Plan may visit the office at any time during business hours to examine the Teachers' Pensions Act and amendments thereto, the annual information return to The Pension Commission, the most recent actuarial valuation report, and the latest audited financial statements.

115 - 1200 Portage Avenue Winnipeg, Manitoba R3G 0T5
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THE TEACHERS' RETIREMENT ALLOWANCES FUND
REPORT TO MEMBERS
1987

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THE TEACHERS' RETIREMENT ALLOWANCES FUND
REPORT TO MEMBERS
1987

This report relates to the operations of The Teachers' Retirement Allowances Fund for its fiscal year ended on December 31, 1986. In this connection, we have attached a copy of the Provincial Auditor's Report on the Accounts for that period as well as the related financial statements. Some highlights taken from those statements are:

	1986	1985	% Increase
Investments	$466,042,597.	$405,778,345.	14.9
Investment Income	$ 46,935,383.	$ 39,495,826.	18.8
Rate of Investment Return	11.25%	10.85%	n/a
Teacher Contributions	$ 32,889,796.	$ 31,213,813.	5.4
Contributors	13,763	13,287	3.6
Contributions and Other Payments by Province of Manitoba and Employers	$ 20,499,226.	$ 18,258,669.	12.3
Pension Payments	$ 36,771,093.	$ 32,092,001.	14.6
Pensioners and Other Recipients	3,733	3,542	5.4

PENSIONS:

During the year, 291 income benefits were granted compared to 260 in 1985, as follows:

	1986	1985
Regular Service Pensions		
Ages earlier than 60	168	144
Ages 60 and over	96	104
	264	248
Annuities to retired teachers not entitled to pensions	27	12
	291	260

128 of the total of 264 regular new pensioners chose a plan of payment providing for all or part of the pension to continue to be paid after the retired teacher's death for the lifetime of a beneficiary. 16 chose life pensions guaranteed for a minimum period of either 10 or 15 years, and 120 selected a basic lifetime pension. 72 pensioners who retired before age 65 chose to integrate either or both of the Old Age Security and Canada Pension Plan pension with

their pension from the Fund. Following is a breakdown of new 1986 regular service pensions according to years of pensionable service, with comparative 1985 figures shown in brackets:

Years of Service	No. of Pensioners		Average Monthly Basic Pension	
1 - 9.9	7	(9)	$ 269	($ 247)
10 - 14.9	28	(22)	533	(446)
15 - 19.9	44	(41)	784	(661)
20 - 24.9	45	(42)	1,097	(1,040)
25 - 29.9	31	(33)	1,235	(1,254)
30 - 34.9	56	(44)	1,939	(1,772)
35+	53	(57)	2,151	(1,947)
1 - 35+	264	(248)	$1,369	($1,262)

Following is a summary of the different types of income benefits being paid at the end of 1986 and 1985:

	1986	1985
Regular Service Pensions -		
to retired teachers	3,291	3,108
to dependents or estates of deceased retired teachers	105	118
Disability Pensions -		
to retired disabled teachers	112	111
to dependents or estates of deceased retired disabled teachers	5	7
Death Benefits -		
to surviving spouses or children of deceased teachers	53	48
Special Annuities -		
to former teachers of retirement age not entitled to regular pensions	167	150
	3,733	3,542

Of the teachers to whom, or in respect of whom the above noted benefits are being paid 2,675 are female and 1,058 are male (1985 - 2,568 female, 974 male).

INFORMATION AND COUNSELLING

A summary of the benefits available to plan members is contained in a general information booklet which has been distributed to all teachers. If, for some reason you have not received a copy of this booklet or if your copy has been misplaced, you can request a new one by contacting your school division office.

During the year, staff members of the Board have corresponded with many individual teachers. During 1986 there were 307 plan members who made appointments to visit the Board office for assistance in formulating retirement plans or to obtain information concerning provisions for reinstatement of refunded service, reciprocal transfer agreements or other aspects of the plan of specific interest to them. Teachers are encouraged to arrange retirement interviews so that they and their spouses more fully understand key decisions regarding the selection of an optional type of pension payment or integration of their pension with Federal Old Age Security and Canada Pension Plan benefits.

In 1986, staff members acted as resource persons for pre-retirement planning seminars organized by The Manitoba Teachers' Society. These seminars were held in Thompson, Carman, Brandon and Winnipeg. 704 teachers planning their retirement registered to attend. Many of them attended with their spouses. Staff members can be made available to any group of teachers who wish assistance in conducting general information meetings related to their pension plan.

Special programs such as the one which allows teachers to convert their pre July 1980 service to a 5 year average in the eventual calculation of their pension continue to be a source of enquiries. Many current and former Manitoba teachers have also enquired regarding provisions recently enacted which eliminate the July 1973 date from reciprocal agreements and which allow former teacher to reinstate their refunded service for the purpose of transferring this service to their new out of province teacher pension plan. Information concerning these or other programs may be obtained by direct enquiry to the general office.

Computer systems have been designed to provide each active teacher with a personalized benefit statement. These statements are scheduled to be distributed to each teacher by mid June each year. It is hoped that the statement will assist teachers in planning for the future. Teachers nearing retirement should contact the Board office for more detailed pension information which cannot be incorporated into the benefit statement.

INVESTMENTS:

As may be noted from the financial highlights, the invested assets of the Fund increased during the year by over $60,000,000. This increase, along with over $15,000,000. of funds resulting from maturing securities, was invested under the direction of the Investment Committee comprised of the Chairman of the Board, a "teacher" member of the board, David Lerner, and the Provincial Deputy Minister of Finance. The investments chosen by the Committee may be summarized as follows:

	% of Total	Cost ($ 000)	Average Yield %
Bonds - Governments	9.7	$ 7,286,	10.01
- Canadian Corporations	9.9	7,493,	11.20
Total Bonds	19.6	14,779,	10.62
Mortgages - Insured, NHA	25.2	19,078,	10.62
- Uninsured	6.3	4,750,	10.82
Total Mortgages	31.5	23,828,	10.66
Total Fixed Income	51.1	38,607,	10.64
Equity Investments			
Real Estate	11.4	8,609,	*
Direct Natural Resources	7.0	5,244,	*
Venture Capital	3.3	2,524,	*
Total Equity	21.7	16,377,	
Total Longer Term Investment	72.8	$54,984,	
Short Term Investment	27.2	20,600,	
Total New Investment	100.0	$75,584,	

* Rates of return to be achieved on these 3 asset classes cannot be predetermined as they are obtained through future rentals, product sales , and net capital gains at point of sale. Over the longer term, investments of these types have historically yielded greater returns than fixed income investments.

Although there was a net increase in the amount invested in every asset class, the percentage of total investments representing longer term fixed income securities reduced by approximately 2% to 54.2%, offset primarily by an increase in short term investments.

As investments in real estate, mortgages, venture capital, and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisitions, over $46,000,000. of unfunded commitments were in place at the end of the year as follows:

	Amount ($ 000)	Average Yield
Mortgages - Insured, NHA.....	$ 22,758,	10.65%
Real Estate Equity.....	6,102,	*
Direct Natural Resources.....	10,516,	*
Venture Capital.....	7,166,	*
Total Commitments.....	$ 46,542,	

The rate of return on average net assets of the Fund increased in 1986 to 11.25% from 10.85% in the preceding year.

ACTUARIAL VALUATION:

Under the Act, an actuarial appraisal of the Fund is made every 3 years. The most recent appraisal as at January 1, 1984 disclosed an actuarial surplus of $37,677,206. as compared to an unfunded liability at January 1, 1981 of $19,506,225.

This significant improvement in the financial position of the Fund ensured that resources were available to meet all existing obligations under the Act as well as the increased liabilities resulting from subsequent changes in the Act that were required to bring the Plan into compliance with amendments that had been made to The Pension Benefits Act. An actuarial valuation as at January 1, 1987 is currently in process and the results will be reported upon next year.

BOARD MEMBERSHIP:

The Board is composed of 7 members appointed by the Lieutenant Governor in Council. 3 are recommended for appointment by The Manitoba Teachers' Society and 2 by The Manitoba Association of School

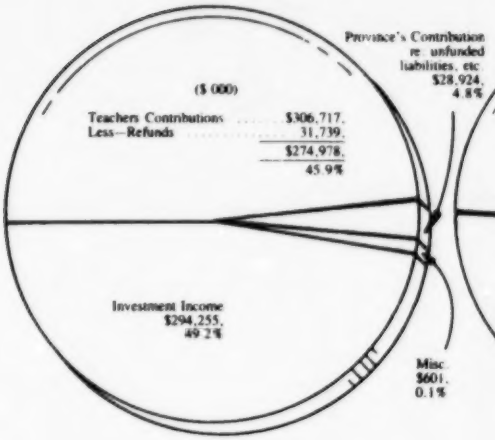
Trustees, with the remaining 2 appointed directly by the government. The names and sources of appointment of the current members of the Board at June 30, 1987 are shown at the beginning of this report.

Glen D. Buhr, C.A.
Secretary-Treasurer
Teachers' Retirement Allowances Fund Board

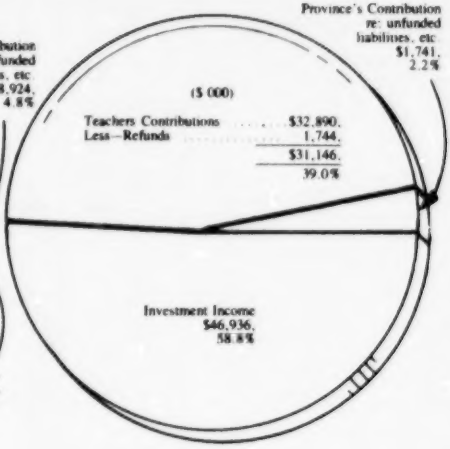
THE TEACHERS' RETIREMENT ALLOWANCES FUND

INCOME

1963 to 1986

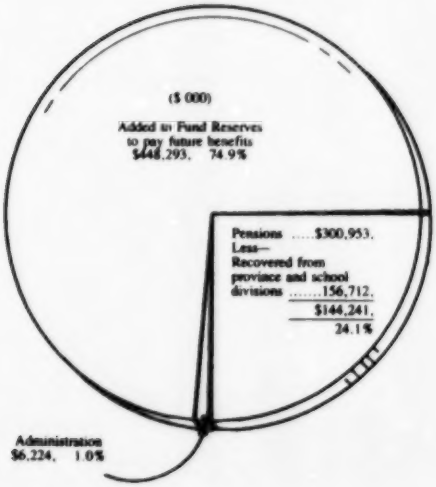


1986

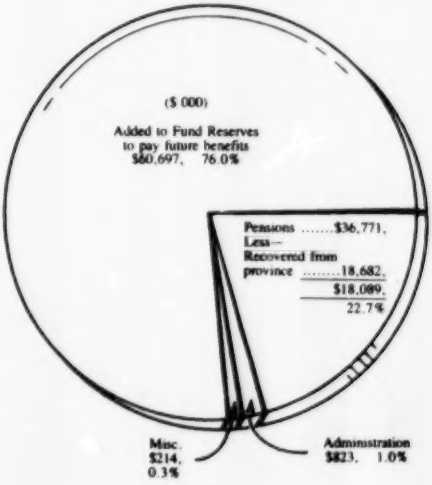


DISPOSITION OF INCOME

1963 to 1986

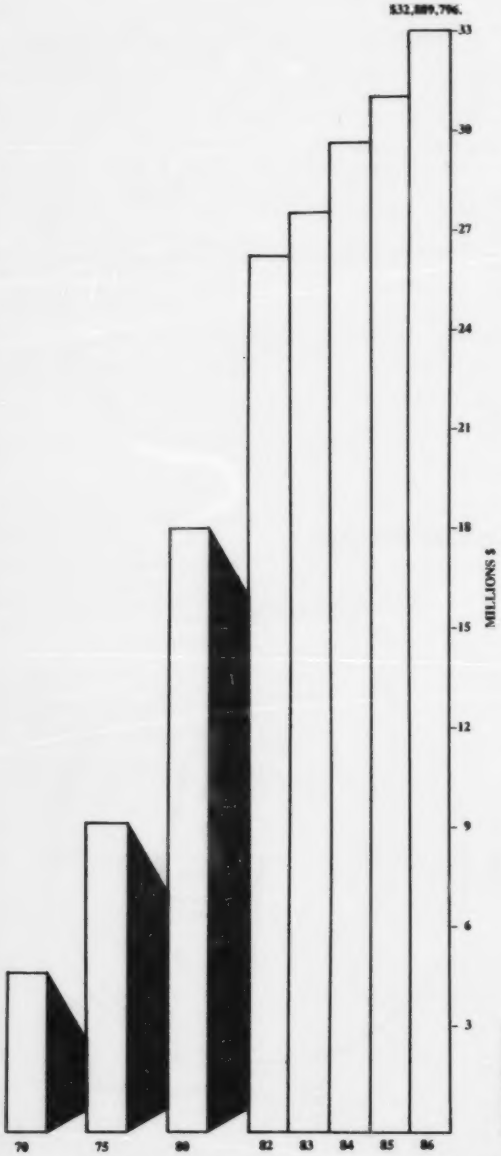


1986

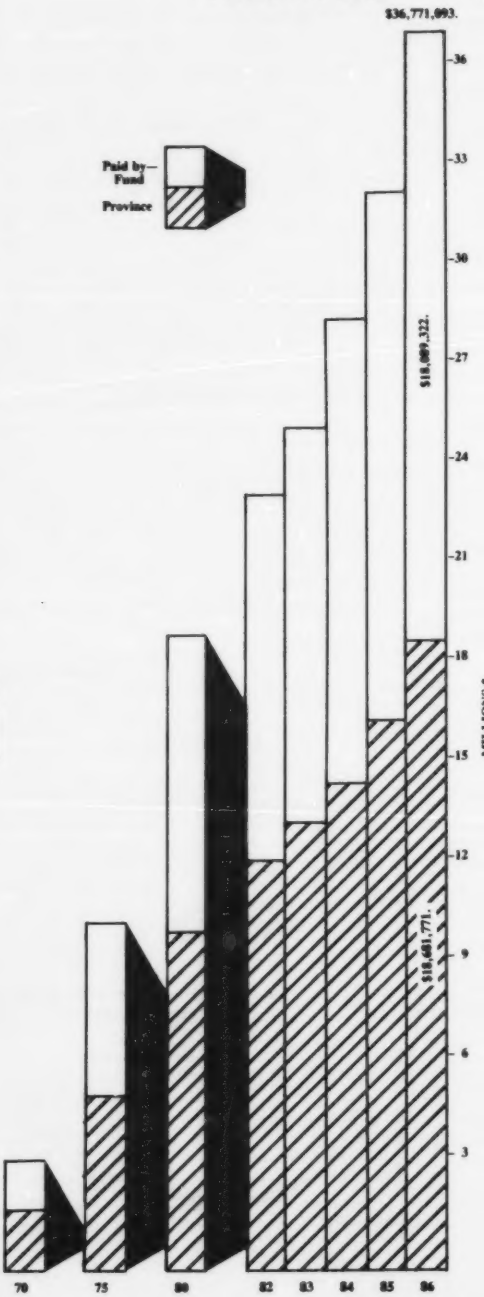


THE TEACHERS' RETIREMENT ALLOWANCES FUND

TEACHER CONTRIBUTIONS

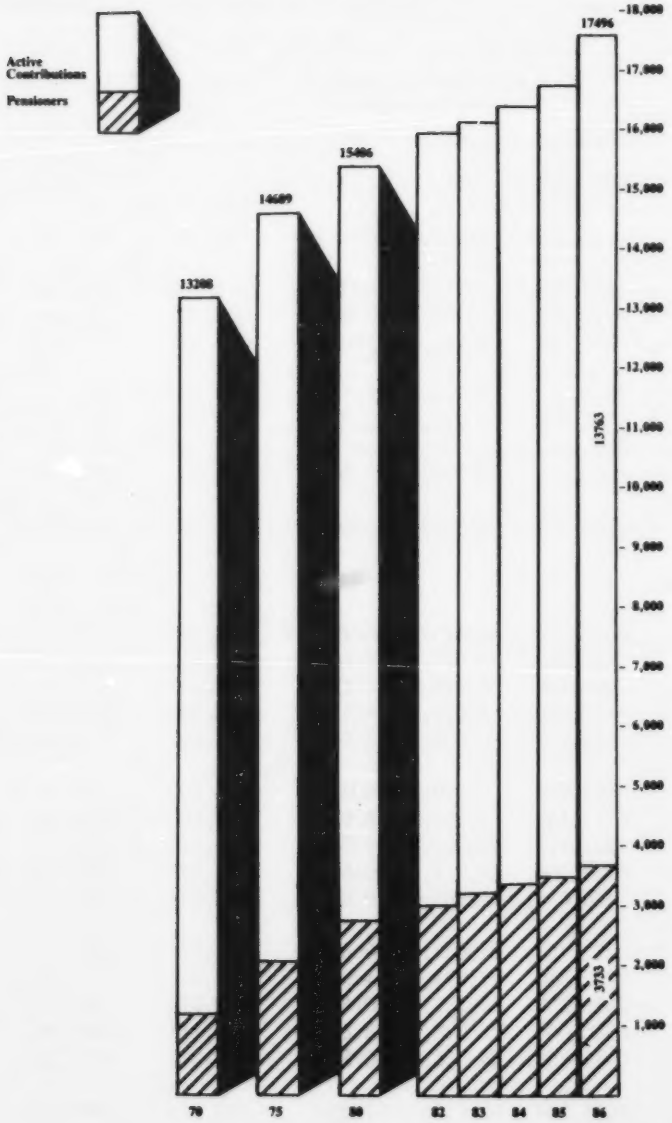


PENSION COSTS



THE TEACHERS' RETIREMENT ALLOWANCES FUND

PLAN MEMBERSHP



TEACHERS' RETIREMENT ALLOWANCES FUND BOARD
COMPARATIVE STATISTICS
1925 - 1986

Year Ended June 30	Net Assets	Income From Investments			CONTRIBUTIONS	
			Approx. Rate of Return %	Number of Teachers Contributing	Teachers	Province of Manitoba
	($ 000)	($ 000)			($ 000)	($ 000)
1925-1948	1,866,	628,	4.00		1,761,	248,
1949-1963	23,225,	5,548,	3.25-4.70	7,750	12,422,	3,830,
1964.....	25,316,	1,144,	4.85	8,700	2,247,	256,
1965.....	28,084,	1,281,	5.00	9,000	3,137,	201,
1966.....	30,387,	1,427,	5.00	9,400	2,962,	538,
1967.....	33,746,	1,574,	5.15	9,750	2,972,	1,017,
1968.....	36,839,	1,735,	5.35	10,650	3,655,	1,227,
1969.....	40,627,	2,008,	5.50	11,150	4,332,	1,394,
1970.....	44,828,	2,320,	5.60	11,650	4,710,	1,578,
6 mos. ended Dec. 31, 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,
year ended Dec. 31,						
1971.....	52,119,	3,125,	6.19	12,100	5,620,	3,123,
1972.....	60,249,	3,977,	6.40	12,000	6,281,	3,841,
1973.....	68,188,	3,996,	6.53	12,200	6,982,	6,100,
1974.....	77,256,	3,078,	4.43	12,300	7,862,	8,755,
1975.....	89,277,	7,008,	8.94	12,400	9,316,	7,538,
1976.....	101,988,	8,090,	8.91	12,500	10,656,	8,519,
1977.....	117,140,	9,260,	8.91	12,600	12,348,	9,322,
1978.....	137,127,	12,007,	9.91	12,716	14,538,	9,985,
1979.....	159,066,	14,917,	10.60	12,533	16,292,	10,859,
1980.....	184,458,	17,181,	10.53	12,471	18,065,	11,848,
1981.....	222,755,	22,877,	14.02	12,805	25,985,	12,617,
1982.....	272,360,	27,991,	11.96	12,907	26,293,	13,912,
1983.....	316,200,	29,139,	10.45	12,915	27,557,	15,183,
1984.....	360,060,	28,579,	8.86	13,111	29,580,	16,453,
1985.....	414,458,	39,506,	10.85	13,287	31,214,	18,184,
1986.....	475,214	46,935,	11.25	13,763	32,890,	20,423,

School Districts ($ 000)	Admin. Expenses ($ 000)	Refunds ($ 000)	Pensions			
			Cost ($ 000)	Being Paid at end of period	Added during period	Deleted during period
--	33,	279,	464,	109	192	83
3,617,	258,	2,630,	5,500,	781	958	286
527,	44,	531,	1,509,	895	148	34
539,	40,	610,	1,750,	960	101	36
287,	39,	803,	2,072,	1,032	102	30
11,	44,	859,	2,251,	1,084	88	36
20,	57,	904,	2,594,	1,155	120	49
12,	56,	990,	2,906,	1,253	138	40
13,	64,	1,116,	3,261,	1,357	143	39
5,	31,	649,	2,310,	1,458	124	23
16,	90,	1,048,	4,955,	1,606	195	47
10,	114,	1,244,	5,670,	1,737	182	51
9,	123,	1,186,	7,076,	1,980	293	50
8,	136,	1,449,	8,957,	2,176	244	48
6,	168,	1,385,	10,661,	2,289	171	58
5,	215,	1,471,	12,388,	2,416	175	48
5,	290,	1,449,	14,018,	2,524	161	53
11,	261,	1,499,	15,489,	2,649	187	62
4,	292,	1,817,	17,212,	2,789	196	56
5,	358,	2,174,	19,050,	2,935	218	72
--	404,	2,191,	20,867,	3,007	143	71
--	493,	2,210,	23,054,	3,117	194	84
--	549,	2,027,	25,519,	3,239	197	75
--	660,	1,980,	28,522,	3,355	213	97
--	709,	1,914,	32,092,	3,542	260	73
--	823,	1,744,	36,771,	3,733	291	100

Manitoba

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A, B and C and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1986. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1986 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. Jackson, CA,
Provincial Auditor

June 5, 1987
Winnipeg, Manitoba

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1986
(with 1985 figures restated for comparison)

A S S E T S

	1986	1985
Investments, Schedule 1	$466,042,597	$405,778,345
Unamortized net adjustment to book value of securities sold before maturity	92,923	124,722
Accrued interest on investments	5,395,267	4,803,358
Investment income receivable	1,511,723	989,668
Teachers' contributions receivable from school divisions	2,234,808	2,373,570
Receivable from Government of the Province of Manitoba	533,577	87,000
Computer equipment, at cost less accumulated amortization of $67,168 (1985 - $35,668), Note 2(F)	104,495	107,767
	$475,915,390	$414,264,430

L I A B I L I T I E S

Bank overdraft and cash on hand	$ 701,862	$ (280,710)
Money Purchase Account, Note 4, Exhibit C	19,444	120,989
Provision for Fund's share of employees' pension benefits, Note 2(E)	512,239	439,233
	1,233,545	279,512
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic	434,665,462	379,143,556
Pension indexing adjustments	38,563,706	33,576,226
Reserves for employers' share of benefits:		
Manitoba Teachers' Society	1,317,901	1,152,036
Manitoba Association of School Trustees	134,776	113,100
	474,681,845	413,984,918
	$475,915,390	$414,264,430

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Changes in Benefit Reserves
for the year ended December 31, 1986
(with 1985 figures restated for comparison)

	Reserve for Teachers' Share of Benefits	
	Basic	Pension Indexing Adjustment
Additions:		
Contributions:		
Teachers	$ 28,078,358	$ 4,811,438
Province of Manitoba:		
Share of benefits charged	18,681,771	--
Re: Actuarial liability created by 1970 and 1973 amendments	1,613,300	--
Prior rural service of certain Winnipeg teachers	127,460	--
Manitoba Teachers' Society	--	--
Manitoba Association of School Trustees	--	--
Other - Transfers under reciprocal agreements	687,658	--
Transfer from (to) Money Purchase Account, Exhibit C	135,725	--
Total contributions	49,324,272	4,811,438
Investment Income, Schedule 2, Note 2	42,406,224	4,384,169
Total additions	91,730,496	9,195,607
Deductions:		
Pensions paid	32,528,822	4,208,127
Contributions refunded	1,743,922	--
Transfers under reciprocal agreements	1,112,877	--
Administrative expenses	822,969	--
Total deductions	36,208,590	4,208,127
Net increase for year	55,521,906	4,987,480
Balance at beginning of year	379,143,556	33,576,226
Balance at end of year, Exhibit A	**$434,665,462**	**$38,563,706**

Exhibit B

1986			1985
Reserve for Employers' Share of Benefits			
Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total
$ --	$ --	$ 32,889,796	$ 31,213,813
--	--	18,681,771	16,436,923
--	--	1,613,300	1,613,300
--	--	127,460	133,351
68,589	--	68,589	67,095
--	8,106	8,106	8,000
--	--	687,658	909,930
--	--	135,725	(110,975)
68,589	8,106	54,212,405	50,271,437
131,420	13,570	46,935,383	39,495,826
200,009	21,676	101,147,788	89,767,263
34,144	--	36,771,093	32,092,001
--	--	1,743,922	1,914,247
--	--	1,112,877	1,061,417
--	--	822,969	708,958
34,144	--	40,450,861	35,776,623
165,865	21,676	60,696,927	53,990,640
1,152,036	113,100	413,984,918	359,994,278
$1,317,901	**$134,776**	**$474,681,845**	**$413,984,918**

Exhibit C

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Money Purchase Account for the year ended December 31, 1986 (with 1985 figures restated for comparison)

	1986	1985
Additions:		
Deposits	$ 33,304	$ 110,975
Allocation of interest income net of administration fee	876	10,014
	34,180	120,989
Deductions:		
Transfer to basic reserve, Exhibit B:		
Upon election of annuity	14,444	--
For transfer to other plans	121,281	--
	135,725	--
Increase (decrease) for the year	(101,545)	120,989
Balance at beginning of year	120,989	--
Balance at end of year, Exhibit A	$ 19,444	$ 120,989

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December, 31, 1986

	Par Value	Book Value
Fixed income longer term investments, Note 2(B)(i):		
Bonds and debentures issued by, or guaranteed by, the following:		
Canada	$ 47,357,500	$ 39,967,585
Province of Alberta	165,000	164,837
Province of British Columbia	518,000	516,215
Province of Manitoba	23,437,000	23,407,457
Province of New Brunswick	915,000	912,413
Province of Newfoundland	1,150,000	1,144,430
Province of Nova Scotia	270,000	268,407
Province of Ontario	6,450,000	5,351,903
Province of Prince Edward Island	740,000	732,632
Province of Quebec	760,000	758,172
Province of Saskatchewan	700,000	697,590
Hospital Districts	6,435,000	6,418,743
Municipal corporations	11,118,475	11,095,843
Corporations	64,885,215	63,004,700
	164,901,190	154,440,927
Mortgages:		
Insured:		
National Housing Act (Canada)	83,619,089	83,014,511
Other	5,122,386	5,035,171
Uninsured	12,594,724	12,537,366
	101,336,199	100,587,048
Total fixed income longer term investments at amortized cost		255,027,975
Less: Provision for capital losses		2,364,909
Net fixed income longer term investments, carried forward		$252,663,066

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1986

	Book Value
Brought Forward	$252,663,066
Non-fixed income investments, Note 2(B)(ii):	
Real estate equity investments:	
Common shares	25,185,924
Participating bonds	44,554,174
Qualifying shares	30,000
Total real estate equity investments, at appraised values	69,770,098
Less: Provision for valuation declines	1,554,684
Net real estate equity investments	68,215,414
Direct natural resource investments:	
Shares and notes, at cost plus interest in retained earnings	15,260,826
Investment in subsidiary, Note 3	7,105,676
Total direct natural resource investments	22,366,502
Venture capital equity investments, at appraised values	10,811,106
Less: Provision for valuation declines	556,500
Net venture capital equity investments	10,254,606
Mortgage investment corporation shares, at cost	1,312,021
Real estate acquired through mortgage defaults	6,030,988
Total non-fixed income investments	108,179,531
Short Term notes, at cost	105,200,000
Total Investments, Exhibit A	**$466,042,597**

Schedule 2

THE TEACHERS' RETIREMENT ALLOWANCES FUND
Summary of Investment Income
for the year ended December 31, 1986
(with 1985 figures restated for comparison)

	1985	1984
Fixed income longer term investments, Note 2(B)(i):		
Interest	$28,441,356	$25,759,631
Amortization of discounts and premiums	927,614	451,426
	29,368,970	26,211,057
Less: Allocation to provision for capital losses	601,650	547,577
	28,767,320	**25,663,480**
Non-fixed income investments, Note 2(B)(ii):		
Real estate equity:		
Interest and dividends	4,953,529	4,703,509
Adjustment due to changes in book value of investments	437,958	503,977
	5,391,487	**5,207,486**
Direct natural resources:		
Income from subsidiary	579,721	1,080,153
Dividends	659,560	677,004
Adjustments due to changes in book value of investments	--	(82,987)
	1,239,281	**1,674,170**
Venture capital equity:		
Income	1,894,068	81,232
Adjustments due to changes in book value of investments	556,500	--
	2,450,568	**81,232**
Mortgage investment corporation:		
Dividends	--	**153,826**
Canadian Commercial Bank:		
Dividends	--	44,898
Adjustment due to changes in book value of investments	(299,995)	(1,660,863)
	(299,995)	**(1,615,965)**
Income from real estate acquired through mortgage defaults	**603,946**	**352,338**
Short term notes:		
Interest	**8,834,164**	**8,032,679**
Total investment income	46,986,771	39,549,246
Allocated to:		
Provision for Fund's share of employees' pension benefits	(50,512)	(43,406)
Money Purchase Account, net of administration fee	(876)	(10,014)
Net Investment Income, Exhibit B	**$46,935,383**	**$39,495,826**

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements for the year ended December 31, 1986

1. Nature of the Organization:

The Teachers' Retirement Allowances Fund Board was originally constituted under an Act passed at the 1925 session of the Legislature and is responsible for administering the current legislation, The Teachers' Pensions Act. The Act provides for the establishment and maintenance of a pension plan and fund to provide retirement security for all public school teachers in Manitoba.

The Teachers' Retirement Allowances Fund primarily consists of contributions made by teachers and provides funds to meet half the cost of retirement benefits.

2. Significant Accounting Policies:

The significant accounting policies are summarized below:

(A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and investment income.

(B) The investment valuation and income measurement policies consist of:

(i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

(ii) Non-Fixed income investments:

Where valuation information is available, which is considered by the Investment Committee to be reliable, equity investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the

provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income.

(a) Investment in subsidiary:

The investment in subsidiary is accounted for on the equity method. On this basis the net change in the equity of the wholly owned subsidiary, Teachers' Retirement Resources Investment Corporation of Manitoba Inc., is recognized as income to the Fund and increases the carrying value of the investment.

(b) Real estate acquired through mortgage defaults:

Properties taken over by the Fund as a result of mortgage defaults are recorded at cost. These properties presently provide the Fund with rental income and will be sold when economic conditions are favorable.

(C) Pension indexing adjustment reserve:

An allocation of teachers' contributions is made to the reserve in accordance with the Act. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on all fixed income investments in the Fund.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) Actuarial valuation:

The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. The most recent actuarial report as at January 1, 1984, disclosed a surplus of $37,677,206 compared to an unfunded liability of $19,506,225 at January 1, 1981. This most recent valuation did not make allowance for the financial effect of changes required to be made as a result of amendments to The Pension Benefits Act and the Actuary advised that it is possible that all of the surplus will be required to finance the resulting increase in liabilities.

(E) Provision for Fund's share of employees' pension benefits:

A portion of the Fund was allocated to provide for the Fund's accrued actuarial liability based on an actuarial report at December 31, 1980. The report provided a method of allocating funds to the Provision each year between triennial valuations to recognize the annual increase in this liability and for adjustments to be made for actual experience at each valuation. Transactions affecting the Provision in 1986 and 1985 were as follows:

	1986	1985
Balance, beginning of year	$439,233	$377,448
Required employer contributions charged to Administrative expenses	23,773	21,198
Interest allocated from investment income	50,512	43,406
	513,518	442,052
Less: Fund's share of pension payments	1,279	2,819
Balance, end of year	**$512,239**	**$439,233**

(F) Computer Equipment:

Computer equipment and software acquisitions are capitalized and amortized on a straight line basis over five years.

3. Investment in Subsidiary:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc. (TRRICMI), a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

The Fund's investment in TRRICMI is comprised of:

	1986	1985
Shareholder's advances	$6,525,816	$5,245,307
Capital stock	100	100
Retained earnings	579,760	1,279,739
Investment in subsidiary	**$7,105,676**	**$6,525,146**

4. Money Purchase Account:

The Teachers' Retirement Allowances Fund Board has established rules for the Money Purchase Account in accordance with Section 68 of The Teachers' Pensions Act. Under these rules, eligible individuals may transfer to the Money Purchase Account an amount from the Fund, the pension plan of a prior employer, or a locked-in registered retirement savings plan, to provide for an annuity or other settlement in the future. The Money Purchase Account is accounted for separately by the Board. The Board charges an annual administrative fee of 1% of the average value of the assets in the plan. The accumulated value of the eligible individual's account, upon election of an annuity under the Money Purchase Account, is transferred to the Basic Benefit Reserve.